HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Halifax CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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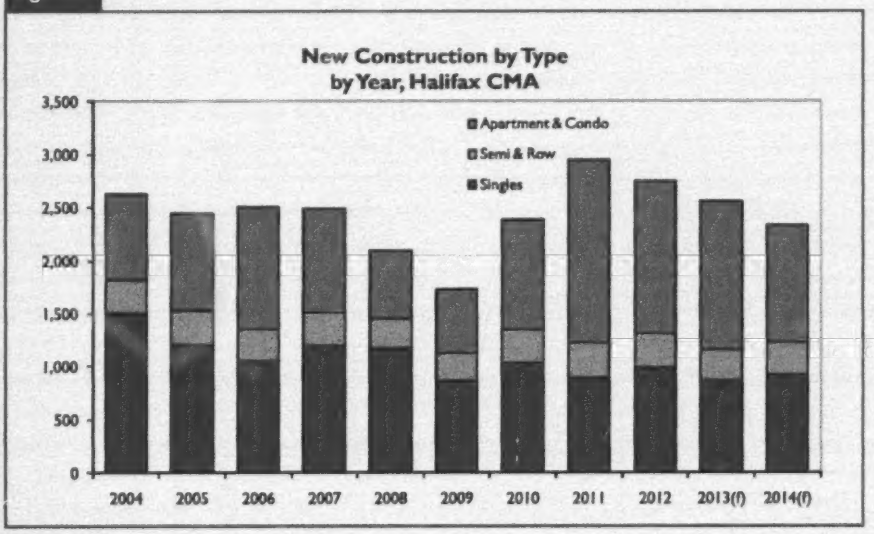
Economic and Demographic Overview

The economy in Nova Scotia is expected to grow at one and 1.5 per cent, respectively in 2013 and 2014. Provincial growth will largely be influenced by economic growth in Halifax, where positive net-migration and modest employment gains will contribute to the local economy.

Population and demographic factors will continue to influence housing demand in Nova Scotia over the forecast period. Provincially, the population has remained relatively unchanged in the last few years at approximately 948,000 residents. Changes in the province's population are largely tied to migratory patterns, including both immigration and

Figure 1



Source and Forecast: CMHC

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interprovincial migration.

Beginning in the fourth quarter of 2007, Nova Scotia recorded 16 consecutive quarters of positive net migration which contributed to increasing the provincial population from 936,000 residents to 948,000 by the end of the third quarter of 2011. Since then however, the province has recorded only one quarter of positive net migration. Most recently in the third and fourth quarters of 2012, provincial net migration patterns turned sharply negative. As a result, the population of Nova Scotia reported a slight decline at the end of 2012. In 2013 and 2014, expect the population of Nova Scotia to record little to no change as demand for labour in western Canada attracts workers from the rest of the country, including Nova Scotia.

Despite the flattening provincial population, the city of Halifax reported modest population growth in recent years. According to most recent census data, Halifax reached 390,328 residents in 2011; an increase of 4.7 per cent compared to 2006. Much of the increase can be attributed to positive net migration patterns to the city, both from migrants in rural parts of the province and to a lesser extent, other parts of Canada. Increasingly, migratory patterns have been influenced by higher numbers of international migrants, or immigrants. Of the more than 16,000 net migrants to the city between 2006 and 2011, more than 9,000 were immigrants. Expect modest population growth driven by migration to continue which, in turn, will support demand for housing over the forecast period.

In addition to changes in the number of residents, other crucial factors that influence housing demand are the age and demographic profile of the population base. In both Nova Scotia and Halifax, the population continues to age. According to census data, the number of Haligonians aged 65 and over increased 13.5 per cent between 2006 and 2011. An aging population with evolving needs may contribute to a shift in housing demand towards the apartment market and other one-floor housing options.

On the employment front, trends in Halifax have been largely mixed in recent years. In 2009, employment grew at a rate of 3.4 per cent. In the following two years, 2010 and 2011, employment growth slowed to 0.9 and 1.3 per cent, respectively. In 2012, increases in total employment further slowed to 0.5 per cent. In 2013, it is expected that gains in employment will remain modest.

In addition to changes in the overall employment level, the composition of the job market in the city has changed in recent years. Over the last three years total employment growth has largely been recorded in the part-time sector. In 2010, full-time job creation was largely non-existent while part-time positions increased 6.5 per cent to over 41,000 jobs. In 2011, employment growth was supported by a one per cent increase in full-time work to 182,000 positions. Most recently in 2012, full-time employment growth reported very little change while part-time employment climbed 3.6 per cent to just under 43,000 jobs. Though increases in full-time positions are more supportive of stimulating housing demand, increases on the part-time side may also contribute, specifically to rental demand or in creating secondary income within an owner occupied unit.

Expect employment growth to remain modest over the forecast period with growth stemming from a few key sectors. Specifically, recent employment growth in the construction industry is expected to continue as a variety of residential and commercial construction projects have begun or are expected this year. Additionally, increased demand for skilled trades and technical workers will result as employment in the emerging resource development sector expands.

In terms of income, real wages in Halifax increased in 2012 as nominal earnings climbed 3.6 per cent while the consumer price index (CPI) grew at a slower rate of 1.7 per cent. Real wage growth in Halifax has been positive for five of the past six years, with the exception of 2011 when nominal wage growth of 1.5 per cent was more than offset by inflationary increases of 3.5 per cent. Thus far in 2013, real wage growth has been positive with earnings growth of three per cent exceeding modest increases in CPI. Increases in earnings adjusted for inflation impact housing demand by increasing the amount of choice a consumer has. More specifically, a consumer with more discretionary income may have the option to rent a more expensive unit or move more quickly into homeownership.

Economic activity, positive net migration patterns and modest job growth in Halifax will provide moderate support to housing demand over the forecast period. Additionally, an aging population base will contribute to shifting some demand towards the apartment market and one-floor living accommodations.

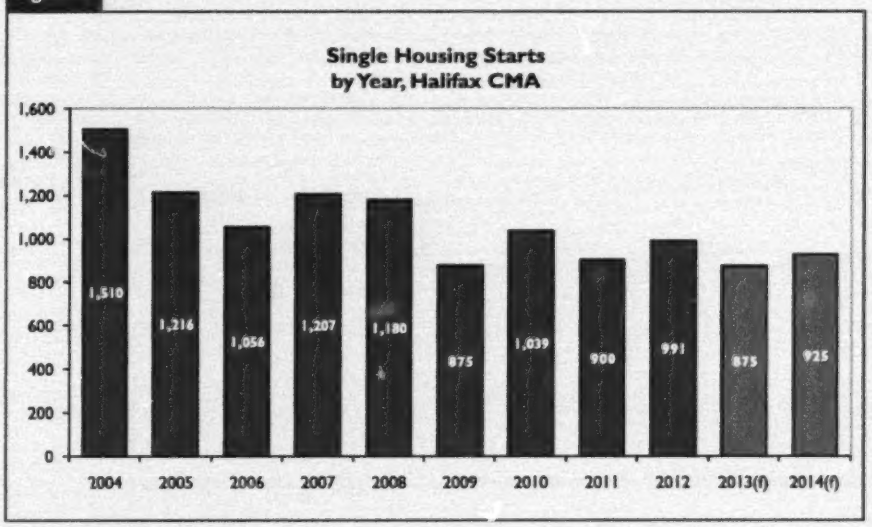
Mortgage Rates to see Modest and Gradual Increases, but will Remain Low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Figure 2



Source and Forecast: CMHC

New Home Construction to Decline in 2013 and 2014

Following two consecutive years of heightened activity, expect new home construction in Halifax to decline in both 2013 and 2014. Residential construction starts totalled 2,754 units in 2012. In 2013, expect starts to decline seven per cent to 2,560 units before decreasing a further nine per cent in 2014 to 2,330 starts.

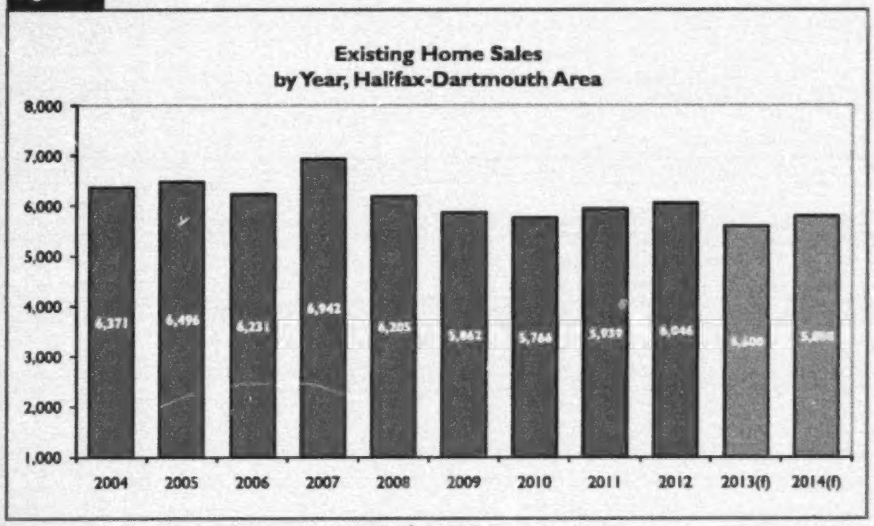
Despite the overall decline in starts forecasted for 2013, expect apartment construction to remain at an elevated pace over the forecast period. In 2010 and 2011, apartment starts increased sharply, climbing from 599 starts in 2009 to 1,043 and 1,724 units in 2010 and 2011, respectively. The following year in 2012, apartment starts declined nearly 17 per cent to 1,437 units – a number that was still well above the long term average. In 2013, expect builders to continue to respond to elevated rental demand and break ground on 1,400 new apartments. In 2014, starts are forecast to further slow to 1,100 units. In both 2013 and 2014, the majority of apartment starts will be rental as opposed to condo.

The recent increase in apartment construction stems from builders responding to increased demand for rental units throughout the city. Demand for rental is supported by a variety of factors including migratory patterns and consumer preference.

Positive net migration to Halifax continues to be a source of on-going rental demand as newcomers tend to rent upon arriving in the city. In addition to demand from migration, demand for apartment units is also being driven by the aging population base. As baby boomers become empty nesters, some in this large age cohort are choosing to downsize or seek the one-floor or lower maintenance living accommodations offered in apartment living.

In the single-detached segment of the housing market, demand has remained relatively subdued in the last few years. In 2011, there were 900 starts reported, which represented the second lowest level for singles since

Figure 3



Source: Nova Scotia Association of REALTORS® & CREA
MLS® is a registered trademark of the Canadian Real Estate Association
Forecast: CMHC

1991 (ahead only of the 875 starts in 2009). In 2012, singles increased ten per cent to 991 starts. Despite the increase last year, single-detached starts were below the ten-year annual average of 1,233 units. After one quarter of 2013, single starts trail last year's pace by 33 per cent with 109 units started.

Despite weakness in terms of starts, the average price of an absorbed, single-detached unit in Halifax climbed more than six per cent in 2012 to $426,885 as consumer preference for location, amenities and finishings resulted in higher construction costs and exerted upward pressure on prices. In 2012, 28 per cent of all new single-detached units were sold at a price of $450,000 or more compared to 17 per cent in 2011.

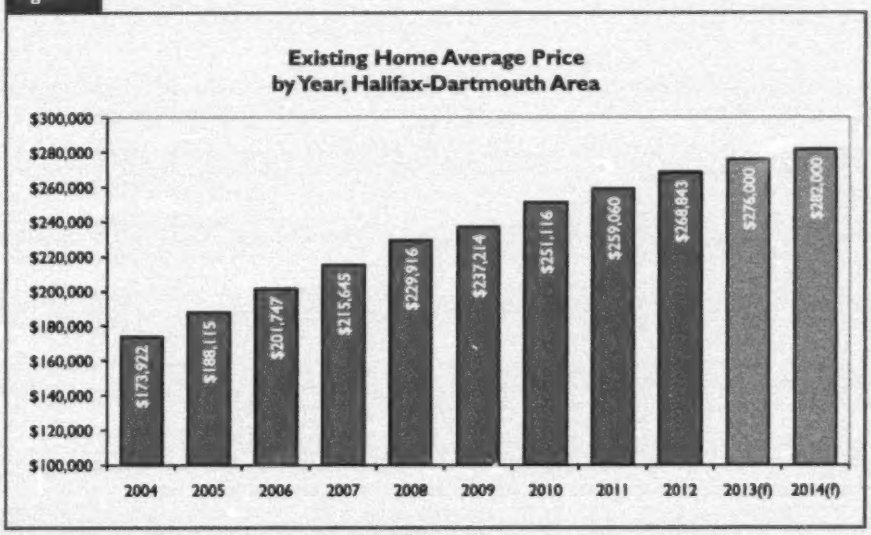
Expect single starts to decline in 2013 to 875 units as modest economic and employment growth combined with an aging population result in relatively subdued demand. In 2014, expect further employment and economic growth along with positive net migration patterns to contribute to slightly higher demand for singles, pushing starts up to 925 units. In terms of prices, expect little change in 2013 followed by growth of 3.5 per cent in 2014 to $440,000.

In the semi-detached and row segments of the market, starts reported little change in 2012 at 326 units compared to 330 in 2011. However in the first quarter of 2013, semi and row starts slowed to just 22 units, a pace well below recent years. Despite the decline, expect semis and rows to remain a popular alternative in Halifax over the forecast period. In 2013, semi-detached starts will total 285 units before climbing seven per cent to 305 starts in 2014.

Existing Home Sales Forecast to Decline

The existing home sales market in Halifax has been mixed in recent years. Following relatively slow years in 2009 and 2010 when sales fell below the 5,900 mark, existing home sales increased three per cent in 2011 to 5,939 units. Despite the modest increase in 2011, sales recorded a sharp increase in the final quarter of the year, climbing 16 per cent compared to the fourth quarter of 2010. This trend continued into the first quarter of 2012 as sales increased nearly 21 per cent.

Figure 4



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However, the pace of MLS® sales slowed in the latter part of 2012 and into 2013. MLS® sales ended the first quarter of 2013 down 31 per cent compared to the previous year and 24 per cent compared to the first quarter, ten year average. The recent weakness in sales is largely attributed to flattening population growth, shifting demand towards apartments and minimal full time job creation.

While it is expected that the pace of sales will increase over the remainder of the year, sales will decline in 2013 and end the year at approximately 5,600 units. In 2014, expect improving economic conditions to contribute to increasing sales to 5,800 units.

In spite of recent declines in sales activity, the average price of an existing home in the city has continued to increase. Prices climbed six per cent in 2010 to $251,116, 3.2 per cent in 2011 to $259,060 and another 3.8 per cent in 2012 to $268,843. As of the end of the first quarter in 2013, the average price of an existing home in the HRM was $273,896. Factors that contributed to price growth include consumer preference for style and size, location, proximity to services and amenities and favourable borrowing conditions. In 2013, prices are forecast to further climb to $276,000 before increasing another 2.2 per cent in 2014 to $282,000.

In terms of location, an increase in sales in below average priced submarkets combined with fewer sales in above average priced submarkets contributed to price growth of less than four per cent in 2012. Specifically, a 19 per cent increase in sales in the Sackville (where the average price was $219,055) and an 11 per cent increase in Halifax County Southwest (at an average of $256,722) combined with declining sales in the two most expensive submarkets, Halifax City and Bedford – Hammonds Plains kept price appreciation at 3.7 per cent last year.

The number of existing homes added to the inventory increased in 2012 as new listings increased over one per cent to 10,450 listings. With reduced demand expected in the existing homes market, expect new listings to report a modest increase of one per cent in 2013.

Vacancy Rate to Increase over the Forecast Period

The apartment vacancy rate in the HRM increased to three per cent in 2012 following three consecutive years of declines. In 2008, the vacancy rate reached an eight year high of 3.4 per cent. The following year, vacancies declined to 2.9 per cent. In 2010 and 2011, housing demand continued to support rental resulting in vacancies declining further. In 2011, the recorded rate of 2.4 per cent was the lowest since 2003. The steady decline beginning in 2009 was attributed to incremental demand for rental units increasing at a pace that was greater than current and new supply entering the market.

As previously stated, a significant portion of recent construction in the city was apartment-style rental unit construction. In 2010, 943 rental apartments were started in the HRM. In 2011 and 2012, construction began on 1,565 and 1,276 units, respectively. Apartment construction is forecast to remain elevated in both 2013 (1,400 starts) and 2014 (1,100 starts) with the majority of units intended for rental.

With the recent increase of apartment construction, it might have been expected that the vacancy rate would have risen past three per cent in 2012. However, as many new apartments are becoming larger in size and scope and construction times have increased. In 2011, 530 new apartments completed construction and entered the market. In 2012 a further 876 apartment-style rental units were completed.

Figure 5

Source and Forecast: CMHC

In 2013, it is expected that a number of projects that commenced construction in 2011 and 2012 will enter the market, further exerting upward pressure on the vacancy rate. The forecasted vacancy rate for 2013 is four per cent, followed by 4.5 per cent in 2014.

Demand for rental units is expected to remain strong over the forecast period. Relatively weak growth in employment along with modest real wage increases has continued to shift some potential first time home-buyers towards rental. Additionally, positive net migration to the city, both from rural parts of the province as well as from immigration will provide an on-going source of rental demand. Also, as the population continues to age there will be demand generated by those who choose to seek one-floor living options such as rental apartments.

In short, it is expected that rental demand will continue to increase in 2013 and 2014. However, an increase in supply in the form of new units coming to market will more than offset additional demand, resulting in increased vacancies in each of the next two years.

In terms of rents, the average rent in the city is expected to increase over the forecast period as increasing labour, material and maintenance costs along with the introduction of new stock to the market exert upward pressure on average rents. Expect the average rent for a two-bedroom unit to reach $980 in 2013 before climbing another two per cent in 2014 to $1,000. Despite the expected increase, the rental market will remain an attractive housing alternative as average rents are projected to increase a rate that is less than that of both new and existing homes.

Forecast Summary Halifax CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,039	900	991	875	-11.7	925	5.7
Multiples	1,351	2,054	1,763	1,685	-4.4	1,405	-16.6
Semi-Detached	156	170	190	150	-21.1	155	3.3
Row/Townhouse	152	160	136	135	-0.7	150	11.1
Apartments	1,043	1,724	1,437	1,400	-2.6	1,100	-21.4
Starts - Total	2,390	2,954	2,754	2,560	-7.0	2,330	-9.0
Average Price ($):							
Single-Detached	352,783	400,405	426,885	425,000	-0.4	440,000	3.5
Median Price ($):							
Single-Detached	328,078	360,000	379,900	380,000	0.0	400,000	5.3
New Housing Price Index (% chg.)	0.9	1.7	2.2	2.5	-	3.0	-
Resale Market							
MLS® Sales	5,766	5,939	6,046	5,600	-7.4	5,800	3.6
MLS® New Listings	10,160	10,336	10,450	10,550	1.0	10,700	1.4
MLS® Average Price ($)	251,116	259,060	268,843	276,000	2.7	282,000	2.2
Rental Market							
October Vacancy Rate (%)	2.6	2.4	3.0	4.0	1.0	4.5	0.5
Two-bedroom Average Rent (October) ($)	891	925	954	980	-	1,000	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	221,100	223,900	225,100	226,500	0.6	230,000	1.5
Employment Growth (%)	0.9	1.3	0.5	1.2	-	1.5	-
Unemployment rate (%)	6.3	6.0	6.1	6.1	-	5.8	-
Net Migration	4,438	4,157	2,756	2,100	-23.8	2,300	9.5

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of REALTORS®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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